

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Bronson City	County Branch
Fiscal Year End June 30, 2006	Opinion Date September 18, 2006	Date Audit Report Submitted to State December 6, 2006	

We affirm that:


We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- | | |
|-----------|---|
| YES
NO | Check each applicable box below. (See instructions for further detail.) |
|-----------|---|
1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
 2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
 3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
 4. ☒ ☐ The local unit has adopted a budget for all required funds.
 5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
 6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
 7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
 8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
 9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
 10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
 11. ☒ ☐ The local unit is free of repeated comments from previous years.
 12. ☒ ☐ The audit opinion is UNQUALIFIED.
 13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
 14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
 15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input type="checkbox"/>	No comments and recommendations	
Other (Describe)	<input checked="" type="checkbox"/>	Govn. Auditing Stds. Report on Compliance and on Internal Control	
Certified Public Accountant (Firm Name) Norman & Paulsen, P.C.		Telephone Number 269-651-3228	
Street Address 127 W. Chicago Road		City Sturgis	State MI
Authorizing CPA Signature  CPA		Printed Name Michael R. Wilson	Zip 49091
		License Number 1101017570	

CITY OF BRONSON, MICHIGAN
FINANCIAL REPORT
WITH SUPPLEMENTAL INFORMATION
JUNE 30, 2006

CITY OF BRONSON

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CITY OF BRONSON

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and
Members of the City Council
City of Bronson, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Bronson, Michigan, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Bronson management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Bronson, Michigan, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Donald L. Paulsen, CPA
Patrick J. Monahan, CPA
Bruce S. A. Gosling, CPA
Michael R. Wilson, CPA
Rick L. Strawser, CPA
Jerrel T. Norman (1941-1982)

The management's discussion and analysis and budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Bronson basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 18, 2006, on our consideration of the City of Bronson internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

September 18, 2006

Norman J. Paulson, P.C.

**CITY OF BRONSON
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Our discussion and analysis of the City of Bronson financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2006. Please read it in conjunction with the City's financial statements.

Financial Highlights

The City's overall financial position increased by \$134,029 during the fiscal year ended June 30, 2006, which represents 2 percent of the net asset position at the beginning of the year. Included in the City's total net assets of \$6,651,031 are the Sewage Disposal System Fund net assets of \$3,258,437 and the Water Supply System Fund net assets of \$1,155,757. The Sewage Disposal System's net assets decreased by \$4,100 and the Water Supply System's net assets increased by \$106,799.

The City's Governmental Funds reflected a total fund balance at June 30, 2006 of \$985,291, which was a increase of \$53,542 from the prior year end.

The total Governmental Fund expenditures for the year ended June 30, 2006, amounted to \$1,200,024, of which \$473,517 (39 percent) was for public safety and \$377,526 (31 percent) was for public works and streets.

Using This Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The Fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements by providing information about the City's most significant funds. The fiduciary fund statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

CITY OF BRONSON

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City as a Whole

The following table shows, in a condensed format, the net assets as of the current year end and compared to the prior year end under the modified accrual basis of accounting:

(dollars presented in thousands)

	Governmental Funds		Enterprise Funds	
	2006	2005	2006	2005
Assets	\$ 1,019	\$ 1,082	\$ 5,176	\$ 5,618
Liabilities	34	150	762	1,307
Fund Equity				
Invested in capital assets, net of related debt	-	-	2,938	2,546
Retained Earnings				
Restricted	-	-	90	158
Unreserved	-	-	1,386	1,607
Fund Balances				
Reserved	22	6	-	-
Unreserved	963	926	-	-
Total Fund Equity	<u>\$ 985</u>	<u>\$ 932</u>	<u>\$ 4,414</u>	<u>\$ 4,311</u>

CITY OF BRONSON

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City's governmental fund equity increased by 5.7 percent or \$53,542 from a year ago. In contrast the prior years governmental fund equity decreased by 25.1 percent or \$312,136.

The City's enterprise fund equity increased by 2.38 percent or \$102,699 from a year ago. In contrast the prior years enterprise fund equity increased by 2.20 percent or \$92,674.

The following table shows, in a condensed format, the net assets of the current year compared to the prior year as required by GASB 34 stated under the full accrual basis.

(dollars presented in thousands)

	Governmental Activities		Business-Type Activities	
	2006	2005	2006	2005
Current and other assets	\$ 1,059	\$ 1,146	\$ 1,492	\$ 1,787
Capital assets	<u>1,351</u>	<u>1,361</u>	<u>3,684</u>	<u>3,831</u>
Total assets	2,410	2,507	5,176	5,618
Long-term debt outstanding	135	250	746	1,285
Other liabilities	<u>38</u>	<u>52</u>	<u>16</u>	<u>22</u>
Total liabilities	173	302	762	1,307
Net assets				
Invested in capital assets, net of related debt	1,246	1,141	2,938	2,546
Restricted	22	6	90	158
Unrestricted	<u>969</u>	<u>1,058</u>	<u>1,386</u>	<u>1,607</u>
Total net assets	<u>\$ 2,237</u>	<u>\$ 2,205</u>	<u>\$ 4,414</u>	<u>\$ 4,311</u>

CITY OF BRONSON

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following table shows the changes of the net assets during the current year as compared to the prior year, under the modified accrual basis of accounting:

(dollars presented in thousands)

	Governmental Funds		Enterprise Funds	
	2006	2005	2006	2005
Revenue				
Property taxes	\$ 643	\$ 630	\$ 36	\$ 36
Licenses and permits	1	1	-	-
Intergovernmental	499	567	-	-
Charges for services	26	24	513	523
Fines and forfeits	28	24	-	-
Other	68	42	82	57
Total revenue	1,265	1,288	631	616
Program expenses				
General government	253	566	-	-
Public safety	474	502	-	-
Public works	175	137	-	-
Parks and recreation	54	45	-	-
Highways and streets	203	309	-	-
Community development	20	19	-	-
Debt service	21	22	-	-
Sewer system	-	-	203	186
Water system	-	-	102	103
Depreciation	-	-	163	162
Interest expense	-	-	60	72
Total expenses	1,200	1,600	528	523
Excess	<u>\$ 65</u>	<u>\$ (312)</u>	<u>\$ 103</u>	<u>\$ 93</u>

CITY OF BRONSON

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following table shows, in a condensed format, the changes in net assets as of the current year compared to the prior year as required by GASB 34 stated under the full accrual basis of accounting.

(dollars presented in thousands)

	Governmental Activities		Business-Type Activities	
	2006	2005	2006	2005
Revenues				
Program revenues				
Charges for services	\$ 73	\$ 63	\$ 513	\$ 523
Operating grants and contributions	183	186	-	-
Capital grants and contributions	-	61	-	-
General revenues				
Property taxes	643	630	36	36
State shared revenues	316	320	-	-
Unrestricted investment earnings	44	27	59	33
Gain (loss) on sale	4	(18)	-	-
Miscellaneous	21	29	23	24
Total revenues	1,284	1,298	631	616
Expenses				
General government	446	353	-	-
Public safety	439	461	-	-
Public works	315	387	-	-
Parks and recreation	47	50	-	-
Community development	-	4	-	-
Interest on long-term debt	6	7	-	-
Sewer system	-	-	384	376
Water system	-	-	144	147
Total expenses	1,253	1,262	528	523
Change in net assets	\$ 31	\$ 36	\$ 103	\$ 93

The City's Funds

Our analysis of the City's major funds begins on page 12, following the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the City as a whole. Major funds for the fiscal year ended June 30, 2006 include the General Fund.

The General fund pays for most of the City's governmental services. The primary services include police and fire services, and administrative services related to general operations that support the primary services. The General Fund is funded primarily by property taxes and state shared revenues.

CITY OF BRONSON

MANAGEMENT'S DISCUSSION AND ANALYSIS

General Fund Budgetary Highlights

As shown in the required supplemental information, the City budgeted a decrease of \$149,226 in the original budget and a decrease of \$5,630 in the amended budget. Actual operating results ended up as an increase of \$21,749.

The actual results ended the fiscal year within \$27,379 of the amended budget.

Capital Assets and Debt Administration

During the year ended June 30, 2006, the total capital assets of the City increased by \$103,490. This amount consisted of \$41,233 for a police vehicle, \$17,100 for a leaf collector and \$30,000 for a street sweeper purchased in the Motor Pool Fund and \$15,156 for sewer improvements in the Wastewater System Fund.

During the year ended June 30, 2006, the City incurred no additional long-term debt borrowings and made principal payments of \$554,000. This amount consisted of \$70,000 in scheduled principal payments and \$484,000 in early principal payments. Total debt obligations at June 30, 2006, amounted to \$851,000.

Economic Factors and Next Year's Budgets and Rates

The adopted budget for the next fiscal year ending June 30, 2007 is reflective of a down or stagnant economy. The budget is actually \$67,380, less than the fiscal year 2005-2006 original budget.

Statutory revenue sharing is expected to be the same as fiscal year 2005-2006 which was less than in the 2003-2004 fiscal year. Camp Branch laborers will cost more again this year as the State is now charging a fuel stipend. Act 51 monies continue to fall short of funding necessary road maintenance. While it won't be necessary for the General Fund to supplement the Major Street Fund this year, the General Fund will have to supplement the Local Street Fund a total of \$54,942 just to affect normal maintenance of seal coating, patching and snow removal. Health insurance rates continue a double digit inflation rate. Interest rates are hedging upward with current investments around 5 percent. The City will be forced to spend \$35,460 from General Fund balance in order to balance this year's budget. This will be the third straight year that the City has projected dipping into the fund balance.

CITY OF BRONSON

MANAGEMENT'S DISCUSSION AND ANALYSIS

Economic Factors and Next Year's Budgets and Rates - (continued)

Water and Sewer rates will continue to be revised annually to reflect the required cash flow to run an effective water supply and wastewater treatment system. New rates go into effect July 1 and will be reflected on bills received in September. A planned water system upgrade that would replace all 4 inch water mains in the City with 8 inch mains, replace the current 200,000 gallon water tower with a 300,000 gallon elevated storage tank, and add a new municipal well with an iron removal plant was proposed in fiscal year 2004-2005. That project relied heavily on potential grants to offset some of the costs. Those grants did not materialize and City Council will now try to develop a strategy of maintenance and system upgrades that can be done over time without drastically increasing water/sewer rates.

The Land Contract entered into fiscal year 2004-2005 to purchase 100 acres of land, the former Schmid Farm property at the South East edge of the City was paid off in fiscal year 2005-2006. The fourteen and one-half acres that were located in Bronson Township are in the process of being annexed.

The land has 11 platted lots that could be readily sold if the platted Pine Street were developed and sanitary sewer lines were run. Water and natural gas are already in the Pine Street right of way. That balance of the land will remain in farm production for the near future. A rental agreement between the former owners, renters and subcontractors was converted to acknowledge the City of Bronson as the new owner.

Because of the difficult times and limited funds, the General Fund will not be making its normal \$15,000 payment into the Fire Sinking Fund. A fund developed to capture monies over time to make scheduled equipment replacement purchases. The Bronson Rural Fire Association is asking for an addition to the Fire Barn in the near future as they wish to purchase a rescue type vehicle, larger than the 20 year-old Chevrolet Suburban currently being used. Where funding will come from is unknown. The Fire Chief continues to seek out grants that could help fund the projects.

The Cemetery continues to need help to break even. In the past the General Fund had covered the deficit. This year the deficit will be paid out of the Cemetery Perpetual Care Fund. Rates for grave openings and lot sales were also increased for the first time in nine years.

We are dedicated to maintaining a high service level for our citizens. We will try our best to do so while working with a smaller revenue stream.

Contacting the City's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the City office.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF BRONSON
STATEMENT OF NET ASSETS
JUNE 30, 2006

	<u>Primary Government</u>		
	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
ASSETS			
Cash and investments	\$ 954,697	\$ 1,306,395	\$ 2,261,092
Receivables, net	74,034	86,026	160,060
Internal balances	(1,611)	1,611	-
Prepaid and other assets	32,267	8,311	40,578
Restricted assets	-	89,842	89,842
Capital assets - net	<u>1,350,650</u>	<u>3,683,852</u>	<u>5,034,502</u>
Total assets	2,410,037	5,176,037	7,586,074
LIABILITIES			
Accounts payable	4,528	-	4,528
Accrued and other liabilities	33,672	15,843	49,515
Debt obligations:			
Due within one year	15,000	46,000	61,000
Due in more than one year	90,000	700,000	790,000
Compensated absences	<u>30,000</u>	<u>-</u>	<u>30,000</u>
Total liabilities	<u>173,200</u>	<u>761,843</u>	<u>935,043</u>
NET ASSETS			
Invested in capital assets, net of related debt	1,245,650	2,937,852	4,183,502
Restricted:			
Debt service	-	89,842	89,842
Other purposes	22,531	-	22,531
Unrestricted	<u>968,656</u>	<u>1,386,500</u>	<u>2,355,156</u>
Total net assets	<u>\$ 2,236,837</u>	<u>\$ 4,414,194</u>	<u>\$ 6,651,031</u>

See accompanying notes to financial statements

CITY OF BRONSON
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2006

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Primary government				
Governmental activities:				
General government	\$ 446,256	\$ 39,217	\$ -	\$ -
Public safety	438,960	28,170	2,135	-
Public works	314,970	-	180,899	-
Parks and recreation	46,898	800	-	-
Community development	14	4,928	-	-
Interest on long-term debt	<u>6,158</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total governmental activities	1,253,256	73,115	183,034	-
Business-type activities:				
Sanitary sewer	384,203	299,115	-	-
Water	<u>144,294</u>	<u>213,869</u>	<u>-</u>	<u>-</u>
Total business-type activities	<u>528,497</u>	<u>512,984</u>	<u>-</u>	<u>-</u>
Total primary government	<u>\$ 1,781,753</u>	<u>\$ 586,099</u>	<u>\$ 183,034</u>	<u>\$ -</u>

General revenues:
 Property taxes
 State shared revenues
 Unrestricted investment earnings
 Gain (Loss) on disposal of assets
 Miscellaneous

Total general revenues

CHANGE IN NET ASSETS

NET ASSETS - BEGINNING OF YEAR

NET ASSETS - END OF YEAR

See accompanying notes to financial statements

Net (Expense) Revenue and Changes in Net Assets

Primary Government

<u>Governmental</u> <u>Activities</u>	<u>Business</u> <u>Type</u> <u>Activities</u>	<u>Total</u>
\$ (407,039)	\$ -	\$ (407,039)
(408,655)	-	(408,655)
(134,071)	-	(134,071)
(46,098)	-	(46,098)
4,914	-	4,914
<u>(6,158)</u>	<u>-</u>	<u>(6,158)</u>
(997,107)	-	(997,107)
-	(85,088)	(85,088)
<u>-</u>	<u>69,575</u>	<u>69,575</u>
-	(15,513)	(15,513)
(997,107)	(15,513)	(1,012,620)
642,955	36,098	679,053
315,554	-	315,554
44,554	59,299	103,853
3,950	-	3,950
<u>21,424</u>	<u>22,815</u>	<u>44,239</u>
<u>1,028,437</u>	<u>118,212</u>	<u>1,146,649</u>
31,330	102,699	134,029
<u>2,205,507</u>	<u>4,311,495</u>	<u>6,517,002</u>
<u>\$ 2,236,837</u>	<u>\$ 4,414,194</u>	<u>\$ 6,651,031</u>

FUND FINANCIAL STATEMENTS

CITY OF BRONSON

GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2006

	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash	\$ 450,327	\$ 336,003	\$ 786,330
Investments	82,852	44,861	127,713
Accounts receivable	3,921	1,873	5,794
Due from other funds	500	-	500
Due from other governments	38,606	28,568	67,174
Prepaid and other assets	<u>24,922</u>	<u>6,355</u>	<u>31,277</u>
Total assets	<u>\$ 601,128</u>	<u>\$ 417,660</u>	<u>\$ 1,018,788</u>
LIABILITIES AND FUND BALANCE			
LIABILITIES			
Accounts payable	\$ 4,528	\$ -	\$ 4,528
Accrued and other liabilities	23,752	3,606	27,358
Due to other funds	<u>1,611</u>	<u>-</u>	<u>1,611</u>
Total liabilities	29,891	3,606	33,497
FUND BALANCE			
Reserved for public safety	22,531	-	22,531
Unreserved - undesignated	<u>548,706</u>	<u>414,054</u>	<u>962,760</u>
Total Fund balance	<u>571,237</u>	<u>414,054</u>	<u>985,291</u>
Total liabilities and fund balance	<u>\$ 601,128</u>	<u>\$ 417,660</u>	<u>\$ 1,018,788</u>

See accompanying notes to financial statements

**CITY OF BRONSON
GOVERNMENTAL FUNDS
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2006**

Total governmental fund balances	\$ 985,291
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Governmental capital assets	\$ 2,008,577	
Less accumulated depreciation	<u>(912,175)</u>	1,096,402

Certain liabilities are not due and payable in the current period and therefore are not reported in the funds.

Bonds payable	(105,000)
Compensated absences	(30,000)

Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are reported with governmental activities.

Net assets of the internal service funds	<u>290,144</u>
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Net assets of governmental activities	<u><u>\$ 2,236,837</u></u>
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See accompanying notes to financial statements

**CITY OF BRONSON
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2006**

	General Fund	Other Governmental Funds	Total Governmental Funds
REVENUES			
Taxes	\$ 642,955	\$ -	\$ 642,955
Licenses and permits	212	-	212
Intergovernmental	325,575	173,013	498,588
Charges for services	19,849	6,536	26,385
Fines and forfeits	28,170	-	28,170
Miscellaneous	48,487	20,069	68,556
Total revenues	1,065,248	199,618	1,264,866
EXPENDITURES			
General government	253,136	-	253,136
Public safety	473,517	-	473,517
Public works	174,536	-	174,536
Parks and recreation	53,910	-	53,910
Highways and streets	-	202,990	202,990
Community enrichment, development and services	-	20,377	20,377
Debt service	-	21,558	21,558
Total expenditures	955,099	244,925	1,200,024
Excess (deficiency) of revenues over expenditures	110,149	(45,307)	64,842
OTHER FINANCING SOURCES (USES)			
Operating transfers in	-	108,100	108,100
Operating transfers out	(88,400)	(31,000)	(119,400)
Total other financing sources (uses)	(88,400)	77,100	(11,300)
Excess (deficiency) of revenues and other financing sources over expenditures and other uses	21,749	31,793	53,542
FUND BALANCE - Beginning of year	549,488	382,261	931,749
FUND BALANCE - End of year	<u>\$ 571,237</u>	<u>\$ 414,054</u>	<u>\$ 985,291</u>

See accompanying notes to financial statements

**CITY OF BRONSON
GOVERNMENTAL FUNDS
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2006**

Net change in fund balances - total governmental funds	\$	53,542
--	----	--------

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives.

Expenditures for capital assets	-	
Depreciation expense	(38,603)	

Loan proceeds provide current financial resources to governmental funds in the period issued, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of loan principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of assets.

Proceeds from debt obligations	-	
Principal payments on debt obligations	15,000	

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Increase in the accrual for compensated absences	-	
--	---	--

Internal service funds are used by management to charge the cost of certain services to individual governmental and business-type funds. The net revenue (expense) of the internal service funds are allocated to governmental and business-type activities.

Net change from internal service funds related to governmental activities		1,391
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Change in net assets of governmental activities	\$	<u>31,330</u>
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See accompanying notes to financial statements

**CITY OF BRONSON
PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
JUNE 30, 2006**

	Sewage Disposal System Fund	Water Supply System Fund	Total	Motor Pool Internal Service Fund
ASSETS				
CURRENT ASSETS				
Cash	\$ 68,381	\$ 86,616	\$ 154,997	\$ 40,654
Investments	354,498	796,900	1,151,398	-
Accounts receivable	50,828	35,198	86,026	1,066
Due from other funds	1,611	-	1,611	-
Prepaid and other assets	<u>5,167</u>	<u>3,144</u>	<u>8,311</u>	<u>990</u>
Total current assets	480,485	921,858	1,402,343	42,710
NONCURRENT ASSETS				
Restricted assets	35,086	54,756	89,842	-
Capital assets, net of depreciation	<u>3,293,929</u>	<u>389,923</u>	<u>3,683,852</u>	<u>254,248</u>
Total noncurrent assets	<u>3,329,015</u>	<u>444,679</u>	<u>3,773,694</u>	<u>254,248</u>
Total assets	3,809,500	1,366,537	5,176,037	296,958
LIABILITIES				
CURRENT LIABILITIES				
Current portion of long-term debt	18,000	28,000	46,000	-
Accrued and other liabilities	9,063	6,780	15,843	6,314
Due to other funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>500</u>
Total current liabilities	27,063	34,780	61,843	6,814
NONCURRENT LIABILITIES				
Long-term debt, net of current portion	<u>524,000</u>	<u>176,000</u>	<u>700,000</u>	<u>-</u>
Total liabilities	<u>551,063</u>	<u>210,780</u>	<u>761,843</u>	<u>6,814</u>
NET ASSETS				
Invested in capital assets, net of related debt	2,751,929	185,923	2,937,852	254,248
Restricted for debt service	35,086	54,756	89,842	-
Unrestricted	<u>471,422</u>	<u>915,078</u>	<u>1,386,500</u>	<u>35,896</u>
Total net assets	<u>\$3,258,437</u>	<u>\$1,155,757</u>	<u>\$4,414,194</u>	<u>\$ 290,144</u>

See accompanying notes to financial statements

**CITY OF BRONSON
PROPRIETARY FUNDS
STATEMENT OF REVENUE, EXPENSES,
AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2006**

	Sewage Disposal System Fund	Water Supply System Fund	Total	Motor Pool Internal Service Fund
OPERATING REVENUE				
Charges for services	\$ 299,115	\$ 213,869	\$ 512,984	\$ 132,936
OPERATING EXPENSES				
Operating and administrative	203,721	101,781	305,502	88,576
Depreciation	<u>132,801</u>	<u>29,801</u>	<u>162,602</u>	<u>60,357</u>
Total operating expenses	<u>336,522</u>	<u>131,582</u>	<u>468,104</u>	<u>148,933</u>
OPERATING INCOME (LOSS)	(37,407)	82,287	44,880	(15,997)
NONOPERATING REVENUE (EXPENSES)				
Property taxes	36,098	-	36,098	-
Investment income	29,354	29,945	59,299	1,238
Gain (Loss) on disposal of assets	-	-	-	3,950
Other revenue	15,536	7,279	22,815	900
Interest expense	<u>(47,681)</u>	<u>(12,712)</u>	<u>(60,393)</u>	<u>-</u>
Total nonoperating revenue (expense)	33,307	24,512	57,819	6,088
OTHER FINANCING SOURCES				
Operating transfers in	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,300</u>
CHANGE IN NET ASSETS	(4,100)	106,799	102,699	1,391
NET ASSETS - BEGINNING OF YEAR	<u>3,262,537</u>	<u>1,048,958</u>	<u>4,311,495</u>	<u>288,753</u>
NET ASSETS - ENDING OF YEAR	<u>\$3,258,437</u>	<u>\$1,155,757</u>	<u>\$4,414,194</u>	<u>\$ 290,144</u>

See accompanying notes to financial statements

**CITY OF BRONSON
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2006**

	Sewage Disposal System Fund	Water Supply System Fund	Total	Motor Pool Internal Service Fund
Cash flows from operating activities				
Receipts from customers	\$ 307,547	\$ 214,874	\$ 522,421	\$ -
Receipts for internal services	-	-	-	132,936
Payments to employees and suppliers	<u>(204,535)</u>	<u>(101,944)</u>	<u>(306,479)</u>	<u>(84,928)</u>
Net cash provided (used) by operating activities	103,012	112,930	215,942	48,008
Cash flows from non-capital financing activities				
Other receipts	15,422	7,279	22,701	11,300
Cash flows from capital and related financing activities				
Property taxes	34,487	-	34,487	-
Principal paid on debt	(511,000)	(28,000)	(539,000)	-
Interest paid on debt	(53,942)	(13,108)	(67,050)	-
Acquisition of capital assets	(15,156)	-	(15,156)	(88,333)
Proceeds from sale of assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,000</u>
Net cash provided (used) by capital and related financing activities	(545,611)	(41,108)	(586,719)	(84,333)
Cash flows from investing activities				
Interest received on investments	<u>32,312</u>	<u>30,175</u>	<u>62,487</u>	<u>1,126</u>
Net increase (decrease) in cash	(394,865)	109,276	(285,589)	(23,899)
Cash and Cash Equivalents - Beginning of Year	<u>852,830</u>	<u>828,996</u>	<u>1,681,826</u>	<u>64,553</u>
Cash and Cash Equivalents - End of Year	<u>\$ 457,965</u>	<u>\$ 938,272</u>	<u>\$1,396,237</u>	<u>\$ 40,654</u>

See accompanying notes to financial statements

CITY OF BRONSON
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS - Continued
YEAR ENDED JUNE 30, 2006

	Sewage Disposal System Fund	Water Supply System Fund	Total	Motor Pool Internal Service Fund
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities				
Operating income (loss)	\$ (37,407)	\$ 82,287	\$ 44,880	\$ (15,997)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities				
Depreciation	132,801	29,801	162,602	60,357
(Increase) decrease in:				
Accounts receivable	8,432	1,004	9,436	-
Other current assets	(711)	(1,051)	(1,762)	(150)
Increase (decrease) in:				
Accrued liabilities	(103)	889	786	3,838
Due to other funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>(40)</u>
Net cash provided by (used for) operating activities	<u>\$ 103,012</u>	<u>\$ 112,930</u>	<u>\$ 215,942</u>	<u>\$ 48,008</u>

See accompanying notes to financial statements

**CITY OF BRONSON
FIDUCIARY FUNDS
BALANCE SHEET
JUNE 30, 2006**

	Agency Funds
ASSETS	
Cash	<u>\$ 38,695</u>
LIABILITIES	
Due to other governmental units	\$ 33,470
Due to community project	4,903
Other liabilities	<u>322</u>
Total liabilities	<u>\$ 38,695</u>

See accompanying notes to financial statements

CITY OF BRONSON

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Bronson conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to cities. GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements and the fund financial statements for proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. For enterprise funds, GASB 20 and 34 provide the City the option of electing to apply FASB pronouncements issued after November 30, 1989. The City has elected not to apply those pronouncements. The more significant accounting policies establishing GAAP and used by the City are discussed below.

Reporting Entity

The City of Bronson is incorporated under the provisions of the Home Rule Act of the State of Michigan. The City of Bronson operates under a Council - Manager form of government and provides the following services as authorized by its charter: Public safety (police, fire, and inspections), highways and streets, public utilities, sanitation, health and social services, culture, parks and recreation, public improvements, planning and zoning, and general administrative services.

As required by generally accepted accounting principles, GASB 14, these financial statements present the City (the primary government) and its component units, entities for which the City is considered to be financially accountable. There are no component units to be included in these financial statements.

Basis of Accounting - Government-Wide Financial Statements - The statement of net assets and the statement of activities display information about the City as a whole. They include all funds of the reporting entity except for fiduciary funds. These statements distinguish between activities that are governmental and those that are considered business-type activities. Internal service fund activity is eliminated to avoid "doubling-up" revenues and expenses.

CITY OF BRONSON

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in preparation of the proprietary fund financial statements but differs from the manner in which the governmental fund financial statements are prepared. Therefore, governmental fund financial statements include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between expenses, both direct and indirect, and program revenues for each segment of the business-type activities of the City and for each governmental and component unit program. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Some functions, such as administrative and financial services include expenses that are, in essence, indirect expenses of other functions. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program is self-financing or draws from the general revenues of the City.

Net assets should be reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

CITY OF BRONSON

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Basis of Accounting - Fund Financial Statements - Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditure/expenses. Funds are organized into three major categories: governmental, proprietary and fiduciary. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

- * Total assets, liabilities, revenues or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- * Total assets, liabilities, revenues or expenditures/expenses of the individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. The internal service funds are presented in a single column on the face of the proprietary fund statements.

The City reports the following major funds:

General Fund - The general fund is the general operating fund of the City. The fund is used to account for all financial transactions except those required to be accounted for in another fund. Revenues are derived primarily from property taxes, state shared revenues and charges for services.

Enterprise Funds

Water Supply System Fund - To account for user charges and for operating expenses and debt service of the City's water system.

Sewage Disposal System Fund - To account for user charges and for operating expenses and debt service of the City's sewer system.

CITY OF BRONSON

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The following is a description of three major categories and various fund types within those categories into which the funds are grouped:

Governmental Fund - All governmental funds are accounted for using modified accrual basis of accounting and the current financial resources measurement focus. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become susceptible to accrual (i.e., when they become both measurable and available). Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable.

Revenue Recognition - "Measurable" means the amount of the transaction can be determined and "available" means collectable within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City considers property taxes, special assessments, licenses, interest revenue and charges for sales and services as susceptible to accrual if the amount was due on or before fiscal year end and collection was within one year after year end except for property taxes for which collection must be within two months of year end. Reimbursements due for state and federally funded projects are accrued as revenue at the time the expenditures are made, or when received in advance, deferred until expenditures are made. All other revenue is recognized as payments are received.

Expenditure Recognition - The measurement focus of governmental accounting is on decreases in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related fund liability is incurred. However, principal and interest on general long-term debt, which has not matured, are recognized when paid. Allocation of costs, such as depreciation and amortization, are not recognized in the governmental funds.

CITY OF BRONSON

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The following is a description of the governmental fund types of the City:

General Fund - The general fund is the general operating fund of the City. The fund is used to account for all financial transactions except those required to be accounted for in another fund. Revenues are derived primarily from property taxes, state shared revenues and charges for services.

Special Revenue Funds - Special revenue funds are used to account for the proceeds of specific revenue sources (other than special assessments and major capital projects) requiring separate accounting because of legal or regulatory provisions or administrative action.

Proprietary Funds - All proprietary funds are accounted for using the accrual basis of accounting. These funds account for operations that are primarily financed by user charges. The economic resource focus concerns determining costs as a means of maintaining the capital investment and management control. Their revenues are recognized when they are earned and their expenses are recognized when they are incurred. Allocations of costs, such as depreciation, are recorded in proprietary funds. Unbilled utility receivables are recorded at year end.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds and internal service funds are charges to customers for sales and services. The water and sewer funds also recognize as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses include the cost of sales and services, administrative costs and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

CITY OF BRONSON

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The following is a description of the proprietary fund types of the City:

Enterprise Funds - Enterprise funds report operations that provide services which are financed primarily by user charges, or activities where periodic measurement of net income is appropriate for capital maintenance, public policy, management control or other purposes.

Internal Service Funds - Internal service funds are used to record the financing of goods or services provided by the City to other departments and funds or to other governmental units on a cost reimbursement basis.

Fiduciary Funds (Not Included in Government-Wide Financial Statements) - Fiduciary funds are used to report assets held in a trustee or agency capacity for others and therefore are not available to support City programs.

Agency Funds - Agency funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governments and/or other funds. The agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Budgets and Budgetary Accounting - Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are legally adopted for the general and special revenue funds. The City adopts its budget in accordance with City Charter and Public Act 621, the Uniform Budgeting and Accounting Act, which mandates an annual budget process and an annual appropriation act to implement the budget. The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- * Prior to June 1, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
- * Public hearings are conducted at the City hall to obtain public comments.

CITY OF BRONSON

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

- * Budget transfers between appropriation centers or changes to appropriation center totals require formal amendment by the City Council. Budgets for the current year are carefully reviewed throughout the year for any revisions of estimates. The legislative body amends the general appropriation act as soon as it becomes apparent this action is necessary.
- * All budget appropriations lapse at the end of the year.
- * Budgets as presented for the governmental funds are prepared on the modified accrual basis consistent with generally accepted accounting principles.

Deposits and Investments - Statutes authorize the primary government and component units to invest in the following:

- * In bonds, securities and other obligations of the United States or agency or instrumentality of the United States.
- * In certificates of deposit, savings accounts, deposit accounts or depository receipts of a bank which is a member of the Federal Deposit Insurance Corporation, a saving and loan association which is a member of the Federal Savings and Loan Insurance Corporation or a credit union which is insured by the National Credit Union Administration.
- * In commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase.
- * In United States government or federal agency obligation repurchase agreements.
- * In banker's acceptances of United States banks.
- * In obligations of this state or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
- * In mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

CITY OF BRONSON

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Receivables and Payables - Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds." All other outstanding balances between funds are reported as "due to/due from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances".

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes attach as enforceable liens on property as of December 31. Taxes are levied on July 1 of the following year and are payable from the date of levy through August 15. Taxes are recognized as revenue (and become available for appropriation) in the fiscal year of the levy date. The City bills and collects its own property taxes and also taxes for the county and school districts. Collections of all the taxes and remittance of them to the other taxing authorities are accounted for in the current tax fund.

Prepaid Items - Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

Restricted Cash and Cash Equivalents - Certain proceeds of the City's enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants.

Capital Assets and Depreciation - Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost of purchase or construction. Contributed assets are recorded at estimated fair market value at the date of donation. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are also capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

CITY OF BRONSON

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

	<u>Depreciable Life-Years</u>
Land improvements	15-40
Streets	15-20
Utility systems	30-50
Buildings and improvements	15-50
Machinery and equipment	5-20
Vehicles	2-7
Furniture and other	3-7

Compensated Absences - City employees are granted vacation and sick leave in varying amounts based on length of service and employee group. The City follows the accounting and reporting principles outlined in GASB 16, with regard to employee vacation and sick leave. The liability for these compensated absences is recorded as long-term debt in the government-wide statements. The current portion of this debt is estimated based on historical trends. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources while the proprietary funds report the liability as it is incurred.

Long-Term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

CITY OF BRONSON

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Fund Equity - In the fund statements, reservations of fund balance represent amounts that are not available for appropriation or are legally segregated for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 - DEPOSITS AND INVESTMENTS

The City's deposits and investments are included on the balance sheet under the following classifications:

	<u>Primary Government</u>
Statement of Net Assets:	
Cash and investments	\$ 2,261,092
Restricted assets	89,842
Statement of Fiduciary Net Assets:	
Cash	<u>38,695</u>
Total	<u><u>\$ 2,389,629</u></u>
Deposits and Investments:	
Bank deposits (checking accounts and savings accounts)	\$ 340,243
Certificates of deposit	2,048,874
Cash on hand	<u>512</u>
Total	<u><u>\$ 2,389,629</u></u>

Deposits - The deposits of the City were reflected in the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) at approximately \$2,401,404. Of that amount, approximately \$695,445 was covered by federal depository insurance and \$1,705,959 was uninsured and uncollateralized.

CITY OF BRONSON

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

NOTE 2 - DEPOSITS AND INVESTMENTS - Continued

The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the City evaluates each financial institution it deposits City Funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

NOTE 3 - RECEIVABLES

Receivables in the governmental activities are 92 percent due from other governments, 4 percent accounts receivable, and 4 percent accrued interest receivable. Business-type activities receivables are 94 percent due from customers and 6 percent accrued interest receivable.

Accounts receivable in the governmental activities and the business-type activities are reported net of an allowance for uncollectible accounts of -0-.

NOTE 4 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund receivables and payables consisted of the following at June 30, 2006:

<u>Fund</u>	<u>Receivable</u>	<u>Fund</u>	<u>Payable</u>
<u>Due from/to other funds</u>			
General Fund	\$ 500	General Fund	\$ 1,611
Wastewater	<u>1,611</u>	Motor Pool	<u>500</u>
Totals	<u>\$ 2,111</u>		<u>\$ 2,111</u>

The Due From/To Other Fund balances resulted from temporary loans to cover cash short falls in a given fund and from a time lag between the dates that interfund goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

CITY OF BRONSON

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

NOTE 4 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS - Continued

Transfers consisted of the following for the year ended June 30, 2006:

<u>Fund</u>	<u>Transfers Out</u>	<u>Fund</u>	<u>Transfers In</u>
General	\$ 88,400	Major Street	\$ 10,100
		Local Street	39,000
		Fire Sinking	15,000
		Cemetery	13,000
		Motor Pool	<u>11,300</u>
	<u>88,400</u>		<u>88,400</u>
Major Street	<u>31,000</u>	Local Street	<u>31,000</u>
Total Primary Government	<u>\$ 119,400</u>		<u>\$ 119,400</u>

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) the transfer from the major street fund to the local street fund represents the sharing of gas and weight tax revenues; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

CITY OF BRONSON

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

NOTE 5 - CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2006, was as follows:

	Balance July 1, 2005	Additions	Disposals	Balance June 30, 2006
<u>Primary Government</u>				
Governmental activities				
Capital assets, not being depreciated:				
Land	\$ 400,499	\$ -	\$ -	\$ 400,499
Capital assets, being depreciated:				
Land improvements	96,344	-	-	96,344
Buildings and improvements	592,830	-	-	592,830
Machinery and equipment	697,315	47,100	53,703	690,712
Vehicles	292,259	41,234	-	333,493
Streets	482,796	-	-	482,796
Subtotal	2,161,544	88,334	53,703	2,196,175
Accumulated depreciation				
Land improvements	17,342	3,854	-	21,196
Buildings and improvements	309,144	11,508	-	320,652
Machinery and equipment	592,929	25,569	53,653	564,845
Vehicles	165,001	38,717	-	203,718
Streets	116,301	19,312	-	135,613
Subtotal	1,200,717	98,960	53,653	1,246,024
Net capital assets being depreciated	960,827			950,151
Net capital assets	<u>\$ 1,361,326</u>			<u>\$ 1,350,650</u>

CITY OF BRONSON

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2006

NOTE 5 - CAPITAL ASSETS - Continued

	Balance July 1, 2005	Additions	Disposals/ Transfers	Balance June 30, 2006
Business-Type activities				
Capital assets, not being depreciated:				
Land	\$ 14,655	\$ -	\$ -	\$ 14,655
Capital assets, being depreciated:				
Sewage disposal system	5,741,626	15,156	-	5,756,782
Water supply System	<u>1,000,530</u>	<u>-</u>	<u>-</u>	<u>1,000,530</u>
Subtotal	6,742,156	15,156	-	6,757,312
Accumulated depreciation				
Sewage disposal system	2,333,052	132,801	-	2,465,853
Water supply System	<u>592,462</u>	<u>29,801</u>	<u>-</u>	<u>622,263</u>
Subtotal	<u>2,925,514</u>	<u>162,602</u>	<u>-</u>	<u>3,088,116</u>
Net capital assets being depreciated	<u>3,816,642</u>			<u>3,669,196</u>
Net capital assets	<u>\$ 3,831,297</u>			<u>\$ 3,683,851</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:		Business-type activities:	
General government	\$ 21,244	Sanitary Sewer	\$ 132,801
Public safety	19,145	Water	<u>29,801</u>
Public works	52,564		
Parks and recreation	<u>6,007</u>		
Total	<u>\$ 98,960</u>	Total	<u>\$ 162,602</u>

CITY OF BRONSON

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

NOTE 6 - LONG-TERM DEBT

Following is a summary of long-term debt transactions for the year ended June 30, 2006:

	Balance July 1, <u>2005</u>	<u>Additions</u>	<u>Reductions</u>	Balance June 30, <u>2006</u>	Current <u>Portion</u>
Governmental Activities					
General obligation bonds	\$ 120,000	\$ -	\$ 15,000	\$ 105,000	\$ 15,000
Compensated absences	<u>30,000</u>	<u>-</u>	<u>-</u>	<u>30,000</u>	<u>-</u>
	150,000	-	15,000	135,000	15,000
Business-Type Activities					
General obligation bonds	502,000	-	11,000	491,000	11,000
Revenue bonds	<u>783,000</u>	<u>-</u>	<u>528,000</u>	<u>255,000</u>	<u>35,000</u>
	<u>1,285,000</u>	<u>-</u>	<u>539,000</u>	<u>746,000</u>	<u>46,000</u>
Total Primary Government Long-Term Debt	<u>\$ 1,435,000</u>	<u>\$ -</u>	<u>\$ 554,000</u>	<u>\$ 881,000</u>	<u>\$ 61,000</u>

Long-term debt payables at June 30, 2006, consisted of the following individual issues:

Governmental Activities

\$190,000 - 1997 Michigan Transportation Fund Bonds, due in annual installments of \$5,000 to \$20,000 through October 1, 2011; interest at rates ranging from 4.1% to 5.6%	\$ 105,000
Long-term compensated absences	<u>30,000</u>
Total Governmental Activities Long-Term Liabilities	<u>\$ 135,000</u>

CITY OF BRONSON

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

NOTE 6 - LONG-TERM DEBT - Continued

Business-Type Activities

\$590,000 - 1993 Sewage Disposal System Improvement Bonds, due in annual installments of \$5,000 to \$23,000 through April 1, 2033; interest at 5.0%	\$ 491,000
\$500,000 - 1997 Water Supply and Sewage Disposal System Bonds, due in annual installments of \$20,000 to \$50,000 through April 1, 2012; interest at rates ranging from 4.35% to 5.65%	<u>255,000</u>
Total Business-Type Activities Long-Term Liabilities	<u>746,000</u>
Total Primary Government Long-Term Debt	<u><u>\$ 881,000</u></u>

Debt Service Requirements

The annual requirements to service all debt outstanding as of June 30, 2006 (excluding compensated absences), including both principal and interest, are as follows:

	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 15,000	\$ 5,359	\$ 20,359
2008	15,000	4,552	19,552
2009	15,000	3,739	18,739
2010	20,000	2,780	22,780
2011	20,000	1,675	21,675
2012	<u>20,000</u>	<u>560</u>	<u>20,560</u>
Total	<u><u>\$ 105,000</u></u>	<u><u>\$ 18,665</u></u>	<u><u>\$ 123,665</u></u>

CITY OF BRONSON

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

NOTE 7 - LONG-TERM DEBT - Continued

	<u>Business-Type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 46,000	\$ 38,662	\$ 84,662
2008	52,000	36,223	88,223
2009	52,000	33,443	85,443
2010	58,000	30,642	88,642
2011	58,000	27,495	85,495
2012-2016	127,000	103,025	230,025
2017-2021	91,000	79,400	170,400
2022-2026	104,000	55,350	159,350
2027-2031	112,000	28,450	140,450
2032-2033	<u>46,000</u>	<u>3,450</u>	<u>49,450</u>
Total	<u>\$ 746,000</u>	<u>\$ 436,140</u>	<u>\$ 1,182,140</u>

NOTE 8 - RISK MANAGEMENT

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for most risks of loss to which it is exposed. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

NOTE 9 - RETIREMENT PLAN

Effective July 1, 1996, the City established a defined contribution retirement plan which covers substantially all City employees except police officers. The City contributes 5% of compensation. For the year ended June 30, 2006, pension expense was \$26,729.

Effective July 1, 1997, the City's police officers began participating in an agent multi employer-defined pension plan with the Municipal Employee's Retirement System (MERS), administered by the State of Michigan. For the year ended June 30, 2006, pension expense was \$11,853.

CITY OF BRONSON

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

NOTE 10- STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

The annual budget is prepared by the City management and adopted by the City Council; subsequent amendments are approved by the City Council. Unexpended appropriations lapse at year-end; encumbrances are not included as expenditures. During the current year, the budget was amended in a legally permissible manner.

The budget has been prepared in accordance with generally accepted accounting principles.

State statutes provide that a local unit shall not incur expenditures in excess of the amount appropriated. The approved budgets of the City were adopted on a fund level basis.

During the year ended June 30, 2006, the City incurred no expenditures in excess of the amounts appropriated at the legal level of budgetary control.

REQUIRED SUPPLEMENTAL INFORMATION

CITY OF BRONSON
REQUIRED SUPPLEMENTAL INFORMATION
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED JUNE 30, 2006

	Original Budget	Amended Budget	Actual	Variance With Amended Budget
REVENUES				
Taxes	\$ 638,581	\$ 644,670	\$ 642,955	\$ (1,715)
Licenses and permits	200	225	212	(13)
Intergovernmental	306,570	319,630	325,575	5,945
Charges for services	18,915	19,741	19,849	108
Fines and forfeits	13,700	27,943	28,170	227
Miscellaneous	<u>27,540</u>	<u>45,992</u>	<u>48,487</u>	<u>2,495</u>
Total revenues	1,005,506	1,058,201	1,065,248	7,047
EXPENDITURES				
General government	283,394	263,073	253,136	9,937
Public safety	532,623	482,494	473,517	8,977
Public works	182,980	176,618	174,536	2,082
Parks and recreation	<u>58,905</u>	<u>53,246</u>	<u>53,910</u>	<u>(664)</u>
Total expenditures	<u>1,057,902</u>	<u>975,431</u>	<u>955,099</u>	<u>20,332</u>
Excess (deficiency) of revenues over expenditures	(52,396)	82,770	110,149	27,379
OTHER FINANCING SOURCES (USES)				
Operating transfers out	<u>(96,830)</u>	<u>(88,400)</u>	<u>(88,400)</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures and other uses	(149,226)	(5,630)	21,749	27,379
FUND BALANCE - Beginning of year				
	<u>549,488</u>	<u>549,488</u>	<u>549,488</u>	<u>-</u>
FUND BALANCE - End of year				
	<u>\$ 400,262</u>	<u>\$ 543,858</u>	<u>\$ 571,237</u>	<u>\$ 27,379</u>

See accompanying notes to financial statements

OTHER SUPPLEMENTAL INFORMATION

CITY OF BRONSON

NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEETS
JUNE 30, 2006

	Major <u>Street</u>	Local <u>Street</u>	Fire <u>Sinking</u>	<u>Cemetery</u>
ASSETS				
Cash	\$ 44,975	\$ 70,739	\$ 96,422	\$ 25,783
Investments	-	-	19,322	-
Accounts receivable	183	290	397	603
Due from other funds	-	-	-	-
Due from other governments	21,131	7,437	-	-
Prepaid and other assets	<u>2,971</u>	<u>2,916</u>	<u>-</u>	<u>468</u>
Total assets	<u>\$ 69,260</u>	<u>\$ 81,382</u>	<u>\$116,141</u>	<u>\$ 26,854</u>
LIABILITIES AND FUND BALANCE				
LIABILITIES				
Accrued and other liabilities	\$ 765	\$ 765	\$ -	\$ 2,076
Due to other funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	765	765	-	2,076
FUND BALANCE				
Unreserved - undesignated	<u>68,495</u>	<u>80,617</u>	<u>116,141</u>	<u>24,778</u>
Total liabilities and fund balance	<u>\$ 69,260</u>	<u>\$ 81,382</u>	<u>\$116,141</u>	<u>\$ 26,854</u>

<u>Cemetery Redevelopment Fund</u>	<u>Cemetery Perpetual Care</u>	<u>Economic Development Fund</u>	<u>Total Nonmajor Governmental Funds</u>
\$ 24,215	\$ 19,060	\$ 54,809	\$ 336,003
12,162	13,377	-	44,861
99	77	224	1,873
-	-	-	-
-	-	-	28,568
-	-	-	6,355
<u>\$ 36,476</u>	<u>\$ 32,514</u>	<u>\$ 55,033</u>	<u>\$ 417,660</u>

\$ -	\$ -	\$ -	\$ 3,606
-	-	-	-
-	-	-	3,606

<u>36,476</u>	<u>32,514</u>	<u>55,033</u>	<u>414,054</u>
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<u>\$ 36,476</u>	<u>\$ 32,514</u>	<u>\$ 55,033</u>	<u>\$ 417,660</u>
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CITY OF BRONSON
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2006

	<u>Major Street</u>	<u>Local Street</u>	<u>Fire Sinking</u>	<u>Cemetery</u>
REVENUES				
Intergovernmental	\$ 127,974	\$ 45,039	\$ -	\$ -
Charges for services	-	-	-	6,536
Miscellaneous	<u>1,909</u>	<u>1,249</u>	<u>4,032</u>	<u>1,232</u>
Total revenues	129,883	46,288	4,032	7,768
EXPENDITURES				
Highways and streets	100,901	102,089	-	-
Community enrichment, development and services	-	-	-	20,363
Debt service	<u>8,511</u>	<u>13,047</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>109,412</u>	<u>115,136</u>	<u>-</u>	<u>20,363</u>
Excess (deficiency) of revenues over expenditures	20,471	(68,848)	4,032	(12,595)
OTHER FINANCING SOURCES (USES)				
Operating transfers in	10,100	70,000	15,000	13,000
Operating transfers out	<u>(31,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>(20,900)</u>	<u>70,000</u>	<u>15,000</u>	<u>13,000</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other uses	(429)	1,152	19,032	405
FUND BALANCE - Beginning of year	<u>68,924</u>	<u>79,465</u>	<u>97,109</u>	<u>24,373</u>
FUND BALANCE - End of year	<u>\$ 68,495</u>	<u>\$ 80,617</u>	<u>\$116,141</u>	<u>\$ 24,778</u>

Cemetery Redevelopment Fund	Cemetery Perpetual Care	Economic Development Fund	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ 173,013
-	-	-	6,536
<u>2,445</u>	<u>2,190</u>	<u>7,012</u>	<u>20,069</u>
2,445	2,190	7,012	199,618
-	-	-	202,990
-	-	14	20,377
<u>-</u>	<u>-</u>	<u>-</u>	<u>21,558</u>
<u>-</u>	<u>-</u>	<u>14</u>	<u>244,925</u>
2,445	2,190	6,998	(45,307)
-	-	-	108,100
<u>-</u>	<u>-</u>	<u>-</u>	<u>(31,000)</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>77,100</u>
2,445	2,190	6,998	31,793
<u>34,031</u>	<u>30,324</u>	<u>48,035</u>	<u>382,261</u>
<u>\$ 36,476</u>	<u>\$ 32,514</u>	<u>\$ 55,033</u>	<u>\$ 414,054</u>



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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL
CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Members of the City Council
City of Bronson

We have audited the financial statements of City of Bronson as of and for the year ended June 30, 2006, and have issued our report thereon dated September 18, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance - As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting - In planning and performing our audit, we considered internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the City Council, management and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Norman & Paulsen, P.C.

September 18, 2006

Donald L. Paulsen, CPA
Patrick J. Monahan, CPA
Bruce S. A. Gosling, CPA
Michael R. Wilson, CPA
Rick L. Strawser, CPA
Jerrold T. Norman (1941-1982)